



McNay Art Museum

Financial Report
(with supplementary information)
Years Ended June 30, 2014 and 2013

McNay Art Museum

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(with supplementary information)
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McNay Art Museum

Contents

| | |
|--------------------------------------------------------------------------------------------|--------|
| Independent Auditor's Report | 1 - 2 |
| Financial Statements | |
| Statements of Financial Position | 3 |
| Statements of Activities and Changes in Net Assets | 4 - 5 |
| Statements of Cash Flows | 6 |
| Notes to Financial Statements | 7 - 19 |
| Supplementary Information | |
| Independent Auditor's Report on Information Accompanying The Basic Financial Statements | 20 |
| Schedule of Functional Expenses | 21 |



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Independent Auditor's Report

To the Board of Directors of
McNay Art Museum
San Antonio, Texas

We have audited the accompanying statements of financial position of McNay Art Museum (the Museum) as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets for the year ended June 30, 2014 and cash flows for the years ended June 30, 2014 and 2013, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the Auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Museum as of June 30, 2014 and 2013, and the changes in its net assets for the year ended June 30, 2014 and its cash flows for the years ended June 30, 2014 and 2013 in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Financial Information

We have previously audited the Museum's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 24, 2013. In our opinion, the summarized comparative information on the statement of activities and changes in net assets presented herein and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BDO USA, LPA

October 23, 2014

Financial Statements

McNay Art Museum
Statements of Financial Position

| <i>June 30,</i> | 2014 | 2013 |
|-----------------------------------------|----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 1,262,126 | \$ 1,176,631 |
| Accounts and interest receivable | 80,890 | 92,899 |
| Contributions receivable, net | 225,409 | 293,906 |
| Inventories | 155,093 | 137,034 |
| Investments | 55,659,927 | 47,394,776 |
| Prepaid and deferred expenses | 571,003 | 232,114 |
| Land, buildings, and equipment, net | 31,948,475 | 33,498,561 |
| Construction in progress | 57,922 | 55,331 |
| Total Assets | \$ 89,960,845 | \$ 82,881,252 |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 511,806 | \$ 325,692 |
| Deferred revenue | 1,021,530 | 569,484 |
| Total Liabilities | 1,533,336 | 895,176 |
| Net Assets | | |
| Unrestricted | | |
| Operating | 378,968 | 454,111 |
| Non-operating | 21,229,707 | 13,458,205 |
| Land, buildings, and equipment | 31,948,475 | 33,498,561 |
| Total Unrestricted | 53,557,150 | 47,410,877 |
| Temporarily restricted | 3,068,436 | 3,122,838 |
| Permanently restricted | 31,801,923 | 31,452,361 |
| Total Net Assets | 88,427,509 | 81,986,076 |
| Total Liabilities and Net Assets | \$ 89,960,845 | \$ 82,881,252 |

The accompanying notes are an integral part of these financial statements.

McNay Art Museum

Statement of Activities and Changes in Net Assets

Year ended June 30, 2014

(With Summarized Financial Information for the Year ended June 30, 2013)

| | Unrestricted | | | | Temporarily Restricted | Permanently Restricted | Total | |
|-----------------------------------------------------------------------------------------|---------------------|---------------------|---------------------------------|----------------------|---------------------------|---------------------------|----------------------|----------------------|
| | Operating | Non- Operating | Land Buildings and Equipment | Total | | | 2014 | 2013 |
| Revenue, Gains and Other Support | | | | | | | | |
| Contributions | \$ 3,279,390 | \$ 494,284 | \$ - | \$ 3,773,674 | \$ 533,121 | \$ 13,576 | \$ 4,320,371 | \$ 3,171,666 |
| Memberships | 760,335 | - | - | 760,335 | - | - | 760,335 | 683,204 |
| Special events - net of direct cost totaling \$122,224 in 2014 and \$115,805 in 2013 | 293,151 | - | - | 293,151 | - | - | 293,151 | 261,858 |
| Dividends and interest, net of fees of \$188,872 in 2014, and \$115,554 in 2013 | 230 | 730,654 | - | 730,884 | 185,839 | 6,537 | 923,260 | 917,216 |
| Net realized and unrealized gains on investments | - | 6,569,563 | - | 6,569,563 | 1,441,522 | 49,875 | 8,060,960 | 4,779,448 |
| Oil royalties, net of taxes of \$23,130 in 2013 and \$20,809 in 2012 | 159,865 | - | - | 159,865 | - | - | 159,865 | 148,691 |
| Rental income | 305,725 | - | - | 305,725 | - | - | 305,725 | 268,442 |
| Museum store | 263,113 | - | - | 263,113 | - | - | 263,113 | 257,819 |
| Educational program revenue | 6,327 | - | - | 6,327 | - | - | 6,327 | 12,152 |
| Exhibition income | 839,532 | - | - | 839,532 | - | - | 839,532 | 707,578 |
| Admission fees | 188,455 | - | - | 188,455 | - | - | 188,455 | 159,787 |
| Photography fees | 36,365 | - | - | 36,365 | - | - | 36,365 | 34,645 |
| Miscellaneous | 3,867 | - | - | 3,867 | - | - | 3,867 | 6,384 |
| Transfers/ appropriations | 933,332 | 94,781 | - | 1,028,113 | (1,307,687) | 279,574 | - | - |
| | 7,069,687 | 7,889,282 | - | 14,958,969 | 852,795 | 349,562 | 16,161,326 | 11,408,890 |
| Net assets released from restrictions | 603,895 | 303,302 | - | 907,197 | (907,197) | - | - | - |
| Total Revenue, Gains, and Other Support | \$ 7,673,582 | \$ 8,192,584 | \$ - | \$ 15,866,166 | \$ (54,402) | \$ 349,562 | \$ 16,161,326 | \$ 11,408,890 |

The accompanying notes are an integral part of these financial statements.

McNay Art Museum

Statement of Activities and Changes in Net Assets

Year ended June 30, 2014

(With Summarized Financial Information for the Year ended June 30, 2013)

| | Unrestricted | | | | Temporarily Restricted | Permanently Restricted | Total | |
|-------------------------------------------------------------------------------------------------------------|-------------------|----------------------|---------------------------------|----------------------|---------------------------|---------------------------|----------------------|----------------------|
| | Operating | Non- Operating | Land Buildings and Equipment | Total | | | 2014 | 2013 |
| Expenses | | | | | | | | |
| Program Services: | | | | | | | | |
| Curatorial and conservation | \$ 1,450,347 | \$ 87,926 | \$ 348,739 | \$ 1,887,012 | \$ - | \$ - | \$ 1,887,012 | \$ 1,733,767 |
| Exhibitions and presentations | 3,162,889 | | 717,992 | 3,880,881 | - | - | 3,880,881 | 3,081,642 |
| Education | 969,494 | 10,528 | 676,964 | 1,656,986 | - | - | 1,656,986 | 1,696,205 |
| Museum store | 296,610 | | 20,514 | 317,124 | - | - | 317,124 | 290,648 |
| Library | 248,547 | | 20,514 | 269,061 | - | - | 269,061 | 263,318 |
| Support Services: | | | | | | | | |
| Management and general | 528,289 | 66,672 | 225,654 | 820,615 | - | - | 820,615 | 964,460 |
| Fundraising | 587,945 | 102,906 | 41,028 | 731,879 | - | - | 731,879 | 801,969 |
| Total Expenses | 7,244,121 | 268,032 | 2,051,405 | 9,563,558 | - | - | 9,563,558 | 8,832,009 |
| Change in net assets before changes related to collection items not capitalized and non-operating transfers | | | | | | | | |
| | 429,461 | 7,924,552 | (2,051,405) | 6,302,608 | (54,402) | 349,562 | 6,597,768 | 2,576,881 |
| Changes related to collection items not capitalized | | | | | | | | |
| | - | (153,050) | - | (153,050) | - | - | (153,050) | (507,605) |
| Loss on disposal of fixed assets | | | | | | | | |
| | - | - | (3,285) | (3,285) | - | - | (3,285) | (14,120) |
| Transfers not affecting operations | | | | | | | | |
| | (504,604) | - | 504,604 | - | - | - | - | - |
| Change in Net Assets | (75,143) | 7,771,502 | (1,550,086) | 6,146,273 | (54,402) | 349,562 | 6,441,433 | 2,055,156 |
| Net assets, beginning of period | 454,111 | 13,458,205 | 33,498,561 | 47,410,877 | 3,122,838 | 31,452,361 | 81,986,076 | 79,930,920 |
| Net Assets, End of Period | \$ 378,968 | \$ 21,229,707 | \$ 31,948,475 | \$ 53,557,150 | \$ 3,068,436 | \$ 31,801,923 | \$ 88,427,509 | \$ 81,986,076 |

The accompanying notes are an integral part of these financial statements.

McNay Art Museum
Statements of Cash Flows

| <i>Years ended June 30,</i> | 2014 | 2013 |
|----------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ 6,441,433 | \$ 2,055,156 |
| Adjustments to Reconcile Change in Net Assets to Net Cash (Used in) Provided by Operating Activities: | | |
| Depreciation | 2,051,405 | 2,050,477 |
| Net realized and unrealized (gains) on investments | (8,060,960) | (4,779,448) |
| Net loss on disposal of fixed assets | 3,285 | 14,120 |
| Decrease (Increase) in: | | |
| Accounts and interest receivable | 12,009 | 8,364 |
| Contributions receivable | 68,497 | (76,409) |
| Inventories | (18,059) | 2,390 |
| Prepaid expenses | (338,889) | 164,138 |
| (Decrease) Increase in: | | |
| Accounts payable and accrued expenses | 186,114 | (183,038) |
| Deferred revenue | 452,046 | 283,451 |
| Net Cash Provided by (Used in) Operating Activities | 796,881 | (460,799) |
| Cash Flows from Investing Activities | | |
| Purchase of equipment and building improvements | (507,195) | (187,157) |
| Proceeds from sale of investments | 49,784,391 | 21,855,350 |
| Purchase of investments | (49,988,582) | (23,280,084) |
| Net Cash (Used in) Investing Activities | (711,386) | (1,611,891) |
| Net (Decrease) Increase in Cash and Cash Equivalents | 85,495 | (2,072,690) |
| Cash and Cash Equivalents, beginning of period | 1,176,631 | 3,249,321 |
| Cash and Cash Equivalents, end of period | \$ 1,262,126 | \$ 1,176,631 |

The accompanying notes are an integral part of these financial statements.

McNay Art Museum

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies

Organization

The McNay Art Museum (the Museum) is a not-for-profit organization with the mission of engaging a diverse community in the discovery and enjoyment of the visual arts. The Museum is located in San Antonio, Texas.

Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Museum have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America (GAAP). Accordingly, the Museum reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted - Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees and, accordingly, include operating and non-operating assets and land, buildings, and equipment.

Temporarily Restricted - Net assets whose use by the Museum is subject to donor-imposed restrictions that can be fulfilled by actions of the Museum pursuant to those restrictions, or that expire by the passage of time. In addition, temporarily restricted net assets include unexpended amounts restricted for purposes designated by the donor (see notes 7 and 14).

Permanently Restricted - Net assets subject to donor-imposed restrictions that must be maintained permanently by the Museum. Generally, the donors of these assets permit the Museum to use all or part of the income from these assets for operating or other purposes (see notes 8 and 14).

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended, June 30, 2013, from which the summarized information was derived.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Museum considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable represent amounts due in less than one year. The Museum reviews all outstanding amounts and determines collectability of its receivables based on past experience with customers. Credit losses have been minimal and consistent with management's estimates.

McNay Art Museum

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies (Continued)

Accounts Receivable (Continued)

The Museum has not established an allowance for doubtful accounts as it has not been considered necessary. The Museum recognized no bad debts from accounts receivable as of June 30, 2014 or 2013.

Contributions Receivable

Unconditional promises to give from grantors and donors are measured at fair value and recorded as revenues in the period in which the promise to give is received. Management reviews all outstanding amounts and determines collectability based on past experience with the Museum's donors. As of June 30, 2014 and 2013 no allowance has been established against these receivables as management deems them collectible. The Museum recognized no bad debts from contributions receivable as of June 30, 2014 and 2013.

Inventories

Inventories consisting of items held for resale at the Museum store are carried at the lower of cost (first-in, first-out) or market.

Investments

Investments are reported at fair market value as of the date of the financial statements.

Prepaid and Deferred Expenses

Prepaid expenses are primarily comprised of advance payments made to vendors for insurance and exhibitions.

Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost or at the fair market value at the date of purchase or date of gift when assets are contributed. The Museum's capitalization policy requires that all items purchased with a useful life of greater than one year and a cost in excess of \$1,250 be capitalized. Depreciation is recorded in the land, buildings, and equipment fund using the straight-line method. Estimated useful lives used in computing depreciation are as follows:

| | Years |
|------------------------------------------|-------|
| Buildings, improvements, and landscaping | 25 |
| Furniture, fixtures, and equipment | 10 |
| Computer and audio visual equipment | 5 |

McNay Art Museum

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies (Continued)

Art Collection

In conformity with industry practice, items purchased or donated for the collection are not recorded as assets in the accompanying statement of financial position. Purchases are reported as decreases in unrestricted net assets or as decreases in temporarily restricted net assets if the assets used to purchase the items were restricted by donors. It is the Museum's policy not to sell collection items.

The collections of the Museum represent one of its most valuable assets; therefore the Museum employs a full-time employee to manage stewardship of the collections in accordance with its collection and acquisition policy. Each item in the collection is numbered and catalogued in an electronic database. The Museum loans collection items to other museums from time to time for display purposes.

Contributions reflected in the financial statements include only recorded cash receipts and pledges, and do not include gifts of works of art received by the Museum, valued at \$499,690 and \$2,475,100 for the years ended June 30, 2014 and 2013, respectively.

Gifts of cash or other property restricted by donors for the purchase of items for the collection are classified as temporarily restricted until expended, and acquisitions are made in accordance with the terms of the gifts.

Revenue Recognition

The Museum recognizes revenue from contributions, membership, admissions and exhibits. Revenue is recognized when earned or given. Amounts contributed for future periods are recorded as deferred revenue.

Contributions

The Museum reports gifts of cash and other assets as restricted support if they are received with donor stipulations as to time or use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

The Museum reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. The Museum did not receive any gifts of land, buildings, or equipment for the years ending June 30, 2014 and 2013.

Deferred Revenue

Deferred revenue represents revenue attributable to events that have not yet occurred.

McNay Art Museum

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), 820-10, defines fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurements, and expands disclosures about fair value measurements. An instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Level 1 - Inputs that utilize quoted prices (unadjusted) in active markets for identical assets that the Museum has the ability to access.

Level 2 - Inputs that include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 - Inputs that are unobservable for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Federal Income Tax Exemption

The Museum is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC); therefore, no provision for income taxes has been made in these statements. The Museum follows the provisions of ASC 740-10 *Accounting for Uncertainty in Income Taxes*, which requires recognition and disclosure of uncertain tax positions in the financial statements. The Museum's management believes that it has appropriate support for any tax positions taken and that it has no material uncertain tax positions. Accordingly, it will not recognize any liability for unrecognized tax benefits. For the years ended June 30, 2014 and 2013, the Museum did not recognize any interest or penalties in the financial statements.

Tax years 2013-2011 remain open to examination by the taxing jurisdictions which the Museum is subject to, and these periods have not been extended beyond the applicable statute of limitations.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and statements of functional expenses. Accordingly, certain costs have been allocated between the programs and supporting services benefited.

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$248,676 and \$240,151 for the years ended June 30, 2014 and 2013, respectively.

McNay Art Museum

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies (Continued)

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

2. Concentration Risk

Financial instruments which potentially subject the Museum to a concentration risk consist principally of cash.

The Museum maintains multiple bank accounts in San Antonio, Texas. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest-bearing accounts, and without limit for non-interest-bearing transaction accounts. The museum holds amounts over the \$250,000 insured limit at various levels during the year.

3. Contributions Receivable

Contributions receivable at June 30, 2014, and expected date of receipt, are listed below:

| | Within One Year | Within Five Years | Total |
|--------------------------|--------------------|----------------------|------------|
| Unrestricted | \$ 180,409 | \$ 20,000 | \$ 200,409 |
| Restricted | 25,000 | | 25,000 |
| Contributions Receivable | \$ 205,409 | \$ 20,000 | \$ 225,409 |

No discount has been applied to the contributions receivable at 2014 since the amount is immaterial to the financial statements.

Contributions receivable at June 30, 2013, and expected date of receipt, are listed below:

| | Within One Year | Within Five Years | Total |
|---------------------------------------|--------------------|----------------------|------------|
| Unrestricted | \$ 184,382 | \$ 40,000 | \$ 224,382 |
| Restricted | 23,000 | 50,000 | 73,000 |
| Contributions | 207,382 | 90,000 | 297,382 |
| Less: Discount to present value at 5% | - | (3,476) | (3,476) |
| Net Contributions Receivable | \$ 207,382 | \$ 86,524 | \$ 293,906 |

McNay Art Museum

Notes to Financial Statements

4. Investments

The carrying value of investments, which is the fair value, is based upon values provided by external investment managers. Fees paid to the external investment managers of \$188,872 and \$115,544 were withdrawn from the account during the year ended June 30, 2014 and 2013 respectively. Therefore, valuation of the investments at year-end reflects value net of fees. Market values, cost, and unrealized appreciation are summarized as follows:

Total investments are composed of the following at June 30, 2014:

| | Cost | Fair Value | Unrealized Appreciation |
|-----------------------------------------|----------------------|----------------------|----------------------------|
| Money market funds | \$ 10,428,105 | \$ 10,428,105 | \$ - |
| U.S. Treasury note | 1,282,689 | 1,445,289 | 162,600 |
| U.S. Government agencies | 1,010,473 | 1,022,670 | 12,197 |
| Municipal bonds | 99,822 | 100,770 | 948 |
| Corporate debt securities | 7,709,924 | 8,068,203 | 358,279 |
| Equity securities | 21,904,465 | 28,305,115 | 6,400,650 |
| Limited partnership - publically traded | 2,240,828 | 3,399,974 | 1,159,146 |
| Limited partnership - privately held | 2,000,000 | 2,889,801 | 889,801 |
| Total Investments | \$ 46,676,306 | \$ 55,659,927 | \$ 8,983,621 |

Total investments are composed of the following at June 30, 2013:

| | Cost | Fair Value | Unrealized Appreciation |
|-----------------------------------------|----------------------|----------------------|----------------------------|
| Money market funds | \$ 5,490,395 | \$ 5,490,395 | \$ - |
| U.S. Treasury note | 1,271,974 | 1,456,982 | 185,008 |
| U.S. Government agencies | 515,552 | 532,710 | 17,158 |
| Municipal bonds | 1,223,888 | 1,238,669 | 14,781 |
| Corporate debt securities | 8,229,772 | 8,606,816 | 377,044 |
| Equity securities | 18,286,532 | 23,453,625 | 5,167,093 |
| Equity funds | 3,164,278 | 3,241,017 | 76,739 |
| Limited partnership - publically traded | 2,047,640 | 2,166,273 | 118,633 |
| Limited partnership - privately held | 1,000,000 | 1,208,289 | 208,289 |
| Total Investments | \$ 41,230,031 | \$ 47,394,776 | \$ 6,164,745 |

McNay Art Museum
Notes to Financial Statements

5. Land, Buildings, and Equipment

Major classification of land, buildings, and equipment are summarized below:

| <i>Years ended June 30,</i> | 2014 | 2013 |
|--------------------------------------------|----------------------|----------------------|
| Land | \$ 585,962 | \$ 585,962 |
| Buildings, improvements, and landscaping | 50,134,186 | 49,735,501 |
| Furniture and equipment | 2,497,983 | 2,434,611 |
| Total Land, Buildings and Equipment | 53,218,131 | 52,756,074 |
| Less: Accumulated depreciation | (21,269,656) | (19,257,513) |
| Net Land, Buildings, and Equipment | \$ 31,948,475 | \$ 33,498,561 |

Depreciation expense totaled \$2,051,405 and \$2,050,477 for the years ended June 30, 2014 and 2013 respectively.

6. Operating Leases

The Organization has several non-cancelable operating leases for equipment that expire at different dates through June 2019. The following are future minimum lease payments under these leases:

| <i>Year ending June 30,</i> | Amount |
|-----------------------------|-------------------|
| 2015 | \$ 41,323 |
| 2016 | 41,177 |
| 2017 | 40,740 |
| 2018 | 40,740 |
| 2019 | 30,555 |
| | \$ 194,535 |

7. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

| | 2014 | 2013 |
|------------------------------------------------|---------------------|---------------------|
| Art acquisitions/conservation | \$ 934,980 | \$ 492,795 |
| Education, exhibitions, and presentations | 1,141,909 | 557,073 |
| Other | 991,547 | 2,072,970 |
| Total Temporarily Restricted Net Assets | \$ 3,068,436 | \$ 3,122,838 |

McNay Art Museum

Notes to Financial Statements

8. Permanently Restricted Net Assets

The following permanently restricted net assets must be invested in perpetuity; the income from these investments is expendable to support the listed functions:

| | 2014 | 2013 |
|------------------------------------------------------|----------------------|----------------------|
| Auditorium and gallery maintenance | \$ 700,000 | \$ 700,000 |
| Art acquisitions | 737,691 | 737,691 |
| Educational programs, exhibitions, and presentations | 9,231,932 | 8,885,846 |
| Curatorial and conservation | 1,000,000 | 1,000,000 |
| Director's chair | 1,000,000 | 1,000,000 |
| Any activities of the museum | 19,132,300 | 19,128,824 |
| Total Permanently Restricted Net Assets | \$ 31,801,923 | \$ 31,452,361 |

9. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose, or by occurrence of other events specified by donors.

| | 2014 | 2013 |
|----------------------------------------------------|-------------------|-------------------|
| Art acquisitions | \$ 153,050 | \$ 507,605 |
| Exhibitions, presentation, and education | 465,521 | 263,491 |
| Other | 288,626 | 113,435 |
| Total Net Assets Released from Restrictions | \$ 907,197 | \$ 884,531 |

10. Contributed Services

A substantial number of volunteers have made significant contributions of their time to develop the Museum, especially its fundraising and educational programs. Approximately 12,000 volunteer hours and 10,500 volunteer hours were contributed during the years ended June 30, 2014 and 2013, respectively. Accounting principles do not permit recording the value of this type of contributed services in the financial statements.

11. Objects Held for Display

Objects held for display (the Museum collection) consist primarily of a strong collection of 19th and 20th century European and American paintings, prints, sculptures, and one of the leading collections of theatre arts in the country. The Museum collection is essential to its mission. The Museum has established stewardship procedures for the accession (acquisition), deaccession (disposal), loan, and care of the collection.

McNay Art Museum

Notes to Financial Statements

11. Objects Held for Display (Continued)

As noted in note 1, objects held for display are not recorded in the financial statements of the Museum. The proceeds received as a result of any deaccessions are used to acquire other works of art for the collection.

12. Retirement Plan

The Museum established a defined contribution retirement plan (the Plan) effective April 2003 and makes bi-weekly contributions to the Plan on behalf of eligible employees. The Plan investments are employee-directed. The museum contributed \$145,454 and \$151,231 to the plan for the fiscal years ended June 30, 2014 and 2013 respectively. Employees are eligible for a 5% employer contribution beginning on the first anniversary of their hire date, after completion of 1000 hours of service, and attaining the age of 20½ years.

The Museum also sponsors a 457(b) deferred compensation plan, enabling certain employees to enhance their retirement by allowing them to defer compensation and receive benefits at separation of service. The Museum contributed \$49,970 and \$44,664 to this plan for the years ended June 30, 2014 and 2013 respectively.

13. Fair Values of Financial Instruments

The Museum uses fair value measurements to record fair value adjustments to certain assets and liabilities to determine fair value disclosures. For additional information on how the Museum measures fair value, refer to note 1.

The following is a description of the valuation methods and assumptions used by the Museum in estimating the fair value disclosures for financial assets. There have been no changes in methodologies used at June 30, 2014 and 2013:

Cash and Equivalents, Equity Funds, Taxable Bond Funds, U.S. Treasury Notes, Municipal Bonds, Corporate Debt Securities, and Equity Securities - Valued at the fair value of shares at quoted market prices held by the Museum at fiscal year-end.

The following tables set forth by level, within the fair value hierarchy, these Museum assets at fair value as of June 30, 2014:

| | Level 1 | Level 2 | Level3 | Total |
|-------------------------------------|----------------------|---------------------|-------------|----------------------|
| Cash and equivalents | \$ 10,428,105 | \$ - | \$ - | \$ 10,428,105 |
| U.S. Treasury notes | 1,445,289 | - | - | 1,445,289 |
| U.S. Government agencies | 1,022,670 | - | - | 1,022,670 |
| Municipal bonds | 100,770 | - | - | 100,770 |
| Corporate debt securities | 8,068,203 | - | - | 8,068,203 |
| Equity securities | 28,305,115 | - | - | 28,305,115 |
| Limited partnership publicly traded | 3,399,974 | - | - | 3,399,974 |
| Limited partnership privately held | - | 2,889,801 | - | 2,889,801 |
| Total Assets at Fair Value | \$ 52,770,126 | \$ 2,889,801 | \$ - | \$ 55,659,927 |

McNay Art Museum

Notes to Financial Statements

13. Fair Values of Financial Instruments (Continued)

The following tables set forth by level, within the fair value hierarchy, these Museum assets at fair value as of June 30, 2013:

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------------|----------------------|---------------------|-------------|----------------------|
| Cash and equivalents | \$ 5,490,395 | \$ - | \$ - | \$ 5,490,395 |
| U.S. Treasury notes | 1,456,982 | - | - | 1,456,982 |
| U.S. Government agencies | 532,710 | - | - | 532,710 |
| Municipal bonds | 1,238,669 | - | - | 1,238,669 |
| Corporate debt securities | 8,606,816 | - | - | 8,606,816 |
| Equity securities | 23,453,625 | - | - | 23,453,625 |
| Equity funds | 3,241,017 | - | - | 3,241,017 |
| Limited partnership publicly traded | 2,166,273 | - | - | 2,166,273 |
| Limited partnership privately held | - | 1,208,289 | - | 1,208,289 |
| Total Assets at Fair Value | \$ 46,186,487 | \$ 1,208,289 | \$ - | \$ 47,394,776 |

14. Endowment Funds

General Information

The Museum maintains various endowment funds established for a variety of purposes. These endowments include both donor-restricted endowment contributions, and funds designated by the Board of Trustees to function as endowments. The donor-restricted endowment funds fall under the provisions of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was adopted by the state of Texas with an effective date of September 1, 2008. This policy defines the Museum's interpretation of the provisions of this law as they relate to the prudent management of its endowment fund.

Background

In July, 2006, the Uniform Law Commission (ULC) approved UPMIFA as a modernized version of the Uniform Management of Institutional Funds Act of 1972 (UMIFA) which governed the investment and management of donor-restricted endowment funds by not-for-profit organizations. The major change of the new law is that UPMIFA prescribes new guidelines for expenditure of a donor-restricted endowment fund when there are no explicit donor stipulations. These guidelines require the Museum to determine what constitutes prudent spending based upon consideration of the donor's intent that the endowment fund continues permanently, the purpose of the fund, and relevant economic factors. UPMIFA emphasizes the perpetuation of the purchasing power of the fund, not just the original dollars contributed to the fund. Although the Act does not require that a specified amount be set aside as principal, the Act assumes that an organization will preserve "principal" by maintaining the purchasing power of amounts contributed, and will spend "income" by making distributions using a reasonable spending rate.

McNay Art Museum

Notes to Financial Statements

14. Endowment Funds (Continued)

Endowment "Principal" Interpretation

The Museum has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment (the "Principal"). The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by UPMIFA.

Endowment Investment Objectives

Endowment investments are managed by professional money manager(s) under the direction of the Investment Committee of the Board of Trustees of the Museum. Funds are invested in a manner that seeks to produce results that meet or exceed the performance of generally recognized market indices, while assuming a moderate level of investment risk.

To satisfy this performance objective, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Endowment "Income" Appropriation (Spending Policy)

The Museum's policy is to appropriate for distribution each year a percentage of its endowment fund's average fair value based on a 12-quarter rolling average as of March 31 of the preceding year. For the fiscal year ended June 30, 2014, the distribution percentage was 5%. The percentage will remain at 5% until further action by the Board of Trustees. In establishing this policy, the Museum considered the long-term expected return on its endowment.

Accordingly, over the long term, the Museum expects the spending policy to allow its endowment to grow at an average of 4% annually. This is consistent with the Museum's objective to maintain the purchasing power of the endowment assets held in perpetuity, or for a specified term, as well as provide additional real growth through new gifts and investment return.

In accordance with UPMIFA, in all its endowment spending activity, the Museum considers the following factors in making a determination to appropriate (spend) or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Museum and the donor-restricted endowment fund
3. General economic and investment market conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Museum, and
7. The investment policies of the Museum

McNay Art Museum

Notes to Financial Statements

14. Endowment Funds (Continued)

Endowment Composition by Type of Fund as of June 30, 2014

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|----------------------------------|---------------------|---------------------------|---------------------------|----------------------|
| Board designated endowment funds | \$ 6,673,330 | \$ 418,558 | \$ - | \$ 7,091,888 |
| Donor restricted endowment funds | - | - | 31,801,923 | 31,801,923 |
| Total Funds | \$ 6,673,330 | \$ 418,558 | \$ 31,801,923 | \$ 38,893,811 |

Changes in Endowment for the Year Ended June 30, 2014

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---------------------------------------------------------|---------------------|---------------------------|---------------------------|----------------------|
| Endowment, beginning of period | \$ 2,280,747 | \$ 418,558 | \$ 31,452,361 | \$ 34,151,666 |
| Investment Return: | | | | |
| Interest and dividends | 55,549 | 1,821 | 10,013 | 67,383 |
| Net appreciation (realized and unrealized) | - | - | 49,875 | 49,875 |
| Total Investment Return | 55,549 | 1,821 | 59,888 | 117,258 |
| Contributions | 349,386 | - | 289,674 | 639,060 |
| Transfers of earnings | 4,043,197 | - | - | 4,043,197 |
| Appropriations of endowment Earnings for expenditure | (55,549) | (1,821) | - | (57,370) |
| Total Funds | \$ 6,673,330 | \$ 418,558 | \$ 31,801,923 | \$ 38,893,811 |

Endowment Composition by Type of Fund as of June 30, 2013

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|----------------------------------|---------------------|---------------------------|---------------------------|----------------------|
| Board designated endowment funds | \$ 2,280,747 | \$ 418,558 | \$ - | \$ 2,699,305 |
| Donor restricted endowment funds | - | - | 31,452,361 | 31,452,361 |
| Total Funds | \$ 2,280,747 | \$ 418,558 | \$ 31,452,361 | \$ 34,151,666 |

McNay Art Museum
Notes to Financial Statements

14. Endowment Funds (Continued)

Changes in Endowment for the Year Ended June 30, 2013

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|-----------------------------------------------|--------------|---------------------------|---------------------------|---------------|
| Endowment, beginning of period | \$ 2,194,359 | \$ 418,558 | \$ 31,429,237 | \$ 34,042,154 |
| Investment Return: | | | | |
| Interest and dividends | 48,198 | 1,297 | 6,223 | 55,718 |
| Net appreciation (realized and unrealized) | - | - | 7,877 | 7,877 |
| Total Investment Return | 48,198 | 1,297 | 14,100 | 63,595 |
| Contributions | 86,388 | - | 3,940 | 90,328 |
| Transfers | - | - | 5,084 | 5,084 |
| Appropriations of endowment | | | | |
| Earnings for expenditure | (48,198) | (1,297) | - | (49,495) |
| Total Funds | \$ 2,280,747 | \$ 418,558 | \$ 31,452,361 | \$ 34,151,166 |

15. Subsequent Events

Subsequent events have been evaluated through October 23, 2014, which is the date the financial statements were available to be issued.

Supplementary Information



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San Antonio, TX 78230

Independent Auditor's Report on Supplementary Information Accompanying the Basic Financial Statements

To the Board of Directors
McNay Art Museum
San Antonio, Texas

Our report on our audit of the basic financial statements of the McNay Art Museum, as of and for the years ended June 30, 2014 and 2013, appears on page 1. The audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. Such information is the responsibility of management and was derived from, and is directly related to, the underlying and other accounting records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional information, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

BDO USA, LLP

October 23, 2014

McNay Art Museum

Schedule of Functional Expenses

Year ended June 30, 2014

(With Summarized Financial Information for the Year ended June 30, 2013)

| | Program Services | | | | | Support Services | | | | Totals | |
|-----------------------------------------|-----------------------------------|-------------------------------------|---------------------|-------------------|-------------------|------------------------------|------------------------------|-------------------|------------------------------|---------------------|---------------------|
| | Curatorial and Conservation | Exhibitions and Presentations | Education | Museum Store | Library | Total Program Services | Management and General | Fund- raising | Total Support Services | 2014 | 2013 |
| | Salaries and wages | 773,171 | 1,301,281 | 472,826 | 117,198 | 166,526 | 2,831,002 | 179,936 | 319,747 | 499,683 | 3,330,685 |
| Payroll taxes | 57,022 | 95,970 | 34,871 | 8,643 | 12,281 | 208,787 | 13,270 | 23,582 | 36,852 | 245,639 | 291,664 |
| Employee benefits | 116,538 | 196,139 | 71,269 | 17,665 | 25,100 | 426,711 | 27,122 | 48,195 | 75,317 | 502,028 | 509,544 |
| Professional fees | 49,715 | 1,032 | 3,640 | - | 1,000 | 55,387 | 157,840 | 120,656 | 278,496 | 333,883 | 158,161 |
| Lectures | - | - | 25,041 | - | - | 25,041 | - | - | - | 25,041 | 36,458 |
| Supplies | 15,420 | 34,472 | 24,714 | 2,828 | 4,209 | 81,643 | 18,030 | 10,660 | 28,690 | 110,333 | 126,026 |
| Communications | 4,226 | 4,171 | 2,026 | 694 | 429 | 11,546 | 13,778 | 2,967 | 16,745 | 28,291 | 34,774 |
| Postage and freight | 19,904 | 932 | 5,220 | - | 86 | 26,142 | 1,945 | 12,283 | 14,228 | 40,370 | 36,967 |
| Occupancy | 93,747 | 193,009 | 181,980 | 5,515 | 5,515 | 479,766 | 60,662 | 11,027 | 71,689 | 551,455 | 505,756 |
| Equipment rental & mtce | 39,611 | 43,840 | 33,821 | 2,665 | 7,843 | 127,780 | 27,125 | 22,401 | 49,526 | 177,306 | 171,178 |
| Printing and publication | 10,413 | 6,929 | 14,072 | 440 | 2,527 | 34,381 | 7,965 | 63,473 | 71,438 | 105,819 | 102,270 |
| Marketing, advertising and publicity | 15,412 | 46,237 | 7,706 | 7,706 | - | 77,061 | - | - | - | 77,061 | 61,367 |
| Travel | 91,094 | 20,686 | 28,445 | 1,752 | - | 141,977 | 19,901 | 1,802 | 21,703 | 163,680 | 110,781 |
| School busing | - | - | 15,097 | - | - | 15,097 | - | - | - | 15,097 | 17,110 |
| Conferences, seminars, and meetings | 8,492 | 4,891 | 14,818 | 525 | 375 | 29,101 | 22,536 | 29,623 | 52,159 | 81,260 | 77,331 |
| Organization dues and subscriptions | 1,284 | 1,557 | 999 | 303 | 1,953 | 6,096 | 17,130 | 5,874 | 23,004 | 29,100 | 27,591 |
| Insurance | 146,114 | 25,907 | 14,804 | 7,402 | 7,402 | 201,629 | 4,441 | - | 4,441 | 206,070 | 196,573 |
| Store cost of sales | - | - | - | 123,268 | - | 123,268 | - | - | - | 123,268 | 113,754 |
| Maintenance of Collection | 92,077 | - | - | - | - | 92,077 | - | - | - | 92,077 | 62,527 |
| Concerts, films, etc. | - | 41,119 | 28,192 | - | - | 69,311 | - | - | - | 69,311 | 20,431 |
| Library books | - | - | - | - | 13,299 | 13,299 | - | - | - | 13,299 | 15,230 |
| Exhibitions | - | 1,144,721 | - | - | - | 1,144,721 | - | - | - | 1,144,721 | 768,647 |
| Credit card fees | 2,880 | - | - | - | - | 2,880 | 7,929 | 17,419 | 25,348 | 28,228 | 23,770 |
| Miscellaneous | 1,153 | (4) | 480 | 6 | 2 | 1,637 | 15,352 | 1,142 | 16,494 | 18,131 | 17,801 |
| | 1,538,273 | 3,162,889 | 980,021 | 296,610 | 248,547 | 6,226,340 | 594,962 | 690,851 | 1,285,813 | 7,512,153 | 6,781,532 |
| Depreciation | 348,739 | 717,992 | 676,965 | 20,514 | 20,514 | 1,784,724 | 225,653 | 41,028 | 266,681 | 2,051,405 | 2,050,477 |
| Total Expenses | \$ 1,887,012 | \$ 3,880,881 | \$ 1,656,986 | \$ 317,124 | \$ 269,061 | \$ 8,011,064 | \$ 820,615 | \$ 731,879 | \$ 1,552,494 | \$ 9,563,558 | \$ 8,832,009 |